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Westly Urges CalSTRS Action on Global Warming *CalSTRS to Join Carbon Disclosure Project at Controller's Request*

SACRAMENTO – State Controller Steve Westly today called on the California State Teachers' Retirement System to pressure automakers to comply with new California emission standards designed to curb global warming.

Air Resources Board regulations require new cars to meet the standards starting in 2009. The rules provide for a 30 percent reduction in greenhouse gases by 2016. California is the first state in the country to regulate greenhouse gas emissions.

In a letter to fellow CalSTRS board members, Westly said he is concerned that automobile makers were threatening lawsuits rather than developing cars to meet the growing demand for clean technology. The fund holds more than \$716 million in investments in auto companies.

"I'm concerned that automakers would rather hire lawyers to litigate than hire engineers to innovate to meet California's new emission standards," Westly said. "The risks of global warming are real, and we need carmakers to address them head-on."

New York, New Jersey, Connecticut, Massachusetts, Maine, Vermont and Rhode Island have adopted or are in the process of adopting California's emission regulations. Combined with California, these states make up approximately 25 percent of new U.S. vehicle sales. These states, along with Canada, are also considering adopting the new greenhouse-gas standards.

Experts also believe that the Kyoto Protocol, which will take effect in February 2005, will increase demand for cars using clean technology. Countries ratifying the protocol account for more than 60 percent of worldwide vehicle sales.

In his letter, Westly called for CalSTRS to put pressure on these companies to act responsibly, and to ask companies to explain their preparedness for the new regulations. Westly called for similar action at the California Public Employees Retirement System last week.

"I hope that the auto manufacturers are preparing for the future by investing in clean technologies, rather than fighting the inevitable," Westly wrote. "If not, CalSTRS should prepare to aggressively engage companies on this issue, including enlisting other investors in our efforts and pursuing proxy battles."

In addition, CalSTRS signed on to the Carbon Disclosure Project (CDP), as Westly proposed. The project is an international initiative to improve the disclosure of the business risks associated with global warming. It sends an annual questionnaire to the world's 500 largest corporations on their companies' potential risk of climate change, and their ability to measure and reduce carbon emissions. Ninety-five public and private fund managers, which together hold \$10 trillion in assets, have already signed on to the initiative.

Text of the letter to CalSTRS board members follows.

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STEVE WESTLY
California State Controller

December 1, 2004

Gary Lynes, Chair and
Members, CalSTRS Investment Committee
7667 Folsom Boulevard
Sacramento, California 95851

Dear Chairman Lynes and Committee Members:

I am concerned about the auto industry's plans to block the new auto emissions standards in California, set to become effective in 2006. As the country's third largest public pension fund, CalSTRS should ask the auto manufacturers how they plan to comply with new California and international requirements to address global warming.

California has led the development of new auto emission rules that other states and Canada may soon adopt. Russia's approval of the Kyoto Protocol last month puts this international agreement into effect and paves the way for global efforts to reduce greenhouse gas emissions. Given the changing regulatory environment, I am deeply concerned that the auto industry is not prepared for the competitive global market of the next five to ten years.

Instead, the Alliance of Automobile Manufacturers – including BMW, DaimlerChrysler, Ford, GM, Mazda, Mitsubishi, Porsche, Toyota and Volkswagen – appears poised to divert money and resources to litigation to dismantle the new California rules. I believe shareholders would be better served if these companies instead invested in the cutting edge technologies integral to their future competitiveness.

CalSTRS' investments in these companies are valued at \$716.9 million (as of October 31, 2004). I urge CalSTRS to put pressure on these companies to act responsibly. This could include asking companies to explain their preparedness for the new regulations and their financial rationale for considering litigation instead.

I hope that the auto manufacturers are preparing for the future by investing in clean technologies, rather than fighting the inevitable. If not, CalSTRS should prepare to aggressively engage companies on this issue, including enlisting other investors in our efforts and pursuing proxy battles.

I ask that the Investment Committee place this item on the agenda for further Board discussion. Worldwide efforts to address global warming are inevitable, and it is important that this Board understand its effects on our investments.

Sincerely,

STEVE WESTLY
California State Controller

SW/jh/ka

cc: Jack Ehnes, Chief Executive Officer
Chris Ailman, Chief Investment Officer
Elleen Okada, Director of Investment Administration and External Relations
Janice Hester Amey, Principal Investment Officer